

Banks seek NRI deposit window, tax relief as liquidity tightens - Banking & Finance News | The Financial Express

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From FDI easing to ECB inflows and a ready Yen swap line, the RBI prefers structural tools over the NRI window

Markets Push for 2013-Style NRI Deposit Schemes as RBI Prefers Structural Fixes

India's financial markets are turning up the heat on policymakers, seeking tax relief for foreign investors and a revival of NRI-focused deposit schemes to ease a tightening liquidity environment. But the [Reserve Bank of India](#) (RBI) appears unwilling to return to the crisis-era tools that helped stabilise the rupee and attract over \$30 billion during the 2013 taper tantrum.

Liquidity stress is evident across the system. Deposit growth continues to lag credit expansion, forcing banks to sharply raise bulk deposit and certificate of deposit (CD) rates. "The real challenge is liquidity, not rates or pricing. If liquidity were comfortable, CD rates wouldn't be where they are," said Anshul Chandok, Head of Treasury at RBL Bank. Several smaller banks are offering more than 8% on bulk deposits, a level last seen before the rate-cut cycle began.

8% Threshold

This has prompted renewed calls for policy intervention, particularly the revival of the NRI deposit windows used in 2013. "We probably need to go back and see what we did in 2013 and maybe launch an India Deposit Scheme or NRI Deposit Scheme. It worked beautifully," said a senior private sector banker. Such a window, he argued, would help banks raise deposits while supporting demand for SLR securities as the government's borrowing programme expands.

But the RBI is signalling a different stance. Officials indicate the central bank does not see the current situation as warranting a crisis-style response. Gaura Sengupta, chief economist at [IDFC First Bank](#), stated that India's forex reserve cover remains strong at 9.8 months, including spot and forward reserves. "FCNR(B) is a crisis management tool and is not expected to be used. The focus will be on bolstering other capital inflows, such as FDI and ECBs, through liberalisation of norms," she said.

Sengupta added that FCNR(B) deposits bring in only dollars and form a very small share of bank liabilities. A more durable solution, she said, lies

in maintaining banking system liquidity at around 1% of NDTL to support deposit creation. While the RBI has infused durable liquidity, deposit growth remains uneven. "Corporate deposits are rising, while household deposits are declining." These are more interest-rate sensitive and less sticky," she said.

2013 vs 2026

Madan Sabnavis, chief economist at [Bank of Baroda](#), agreed that today's environment differs fundamentally from 2013. "Back then, India had low forex reserves. Second, the 2013 episode was largely India-specific, whereas the pressures today are global. So there is no compelling need for a similar response," he said. He added that global uncertainty is also weighing on remittances and NRI deposits, limiting potential inflows. Sabnavis pointed out that the RBI has already renewed its currency swap arrangement with Japan, which allows India to draw Yen if required. "Such agreements act as effective contingency buffers," he said.

The central bank appears more inclined toward structural liberalisation, particularly easing frictions around FDI. Chandok agrees that ECB inflows have risen meaningfully, though they cannot replace domestic deposits. In the first 10 months of FY26, companies raised \$33 billion via ECBs, compared with \$47.3 billion in the same period of FY25.

A private sector bank treasury head stated that while draft guidelines now allow 100% of capital to be borrowed overseas, concerns persist about hedging costs and the impact of disruptions on base liabilities. "FCNR(B) deposits, on the other hand, are considered a better alternative as they don't create external hedging liabilities," he said.

Market participants are also pushing for tax relief. Equity investors want the removal of capital gains tax on foreign portfolio investors (FPIs). "India must reduce friction if it wants to attract long-term capital," said Nitin Jain, CEO & Director, Kotak Mahindra Asset Management Singapore. Even a modest shift, he argued, could strengthen the currency and boost risk capital.

"India must improve post-tax, hedged returns for foreign investors. What matters is what they finally take home," says Venkatakrisnan Srinivasan, Founder & Managing Partner at Rockfort Fincap LLP. "Stable, predictable policies and better after-tax returns will naturally draw more foreign flows."

However, regulators remain cautious. On capital gains taxation, the decision lies with the government, which is unlikely to revisit the issue mid-term. For now, tax breaks, NRI deposit windows, and faster liberalisation remain on the market's wishlist. Policymakers appear focused on structural reforms rather than short-term fixes, even as

liquidity tightens and global volatility rises. As Chandok put it, "Deposit creation has been a challenge, and this is a good window to use the opportunity till flows come back." "India cannot afford to ignore global capital. We require hard currency, and we should not disincentivise it," Jain added.
